

## INFORMATION PAPER

1. SUBJECT: Combat Zone Tax Exclusion-Leave (CZTE-L)
2. PURPOSE. To provide clarification to deployed personnel regarding CZTE-L taxability.
3. DISCUSSION.

a. The DoDFMR, Volume 7A, Chapter 35, Interim Change 33-02, defines Combat Zone Tax Exclusion-Leave (CZTE-L) as leave accrued in a combat zone or qualified hazardous duty area or while hospitalized as a result of action in such a zone/area. The leave earned is 2.5 days per month, regardless of the number of days spent in the zone/area.

b. Earned CZTE-L will be applied as soon as Soldier takes leave after returning from a combat zone/hostile fire area. Even if a Soldier does not take leave until months after returning home, CZTE-L is applied and the tax benefit, if any, will reflect on the Soldier's LES when the leave is processed. The CZTE-L balance is reflected in the remarks section on the EOM LES.

c. If a Soldier takes leave in the same month they departed the combat zone/hazardous duty area, the Soldier will not see a tax benefit because that month already qualifies as a tax-exempt month. The same applies if a Soldier sells leave in the same month they return home – no tax benefit is realized. If the CZTE-L is taken or sold in a month other than the month that the Soldier returned home, taxable wages are exempt from federal income taxation and not subject to federal or state income tax withholding up to monthly limit which is \$6,529.20 for calendar year 2005 (Sergeant Major of the Army's base pay plus hostile fire/imminent danger pay).

d. The CZTE-L tax exclusion is unlimited for enlisted Soldiers and warrant officers. However, commissioned officers are subject to limitations and all CZTE-L may not be tax-exempt. If a commissioned officer reaches their tax-exempt limit in the month the leave was earned, any CZTE-L earned will not be tax-exempt when taken. The tax-exempt limit for commissioned officers is as stated in the above paragraph - \$6,529.20.

e. To determine whether the limitation will apply to officers, the leave must be allocated to the months in which earned and for which the officer qualified for CZTE status. The value of the leave for each individual month must be added to the amount of tax exemption received for that tax exempt month and the total compared to the monthly limitation amount. Tax exemption may only be given for the value of that portion of CZTE-L that does not exceed the limitation available. Any amount over the CZTE-L value that exceeds the limitation available will be treated as taxable income. Example of taxability for an officer who does not meet the tax-exempt limit in month CZTE-L was earned is as follows:

<b>OFFICER INFORMATION</b>	
RANK	LTC/05
YEARS SVC	14
BASE PAY (BP)	\$6,048.60
# CZTE-L DAYS EARNED (TDY to Bosnia Jan/Feb 05)	5
<b>CZTE-L TAX EXEMPTION BALANCE</b>	
CZTE MAX EXEMPTION PER/MO FOR OFFICERS	\$6,529.20
ACTUAL CZTE EXEMPTION FOR THIS OFFICER PER/MO (JAN/FEB)	- \$6,273.60
CZTE-L TAX EXEMPT BALANCE	= \$255.60
<b>LEAVE TAKEN 14-15 MARCH 2005</b>	
CZTE-L TAX EXEMPT BALANCE	\$255.60
VALUE OF 2 DAYS LV (\$6,048.00/30*2)	- \$403.24
LV VALUE SUBJECT TO TAX & TAX WITHHOLDING	= \$147.64

**EXPLANATION OF ABOVE EXAMPLE:** A LTC/05 with over 14 years service deployed to Bosnia from 10 Jan – 10 Feb 05. The officer was entitled to monthly basic pay (BP) of \$6,048.60 and to Hostile Fire Pay (HFP) of \$225. The maximum tax exemption for officers is equal to the monthly BP for the Sergeant Major of the Army (\$6,304.20) plus HFP (\$225) which equals \$6,529.20. The officer earned 2.5 days leave per month during the deployment for a total of 5 days leave. The officer took 2 days leave in March 2005 (14-15 march). The officer's leave taken is partially exempt from income tax and income tax withholding since BP plus HFP in those two months was close to the maximum tax exemption for officer -- \$6,529.20. The officer has already received tax exempt treatment for January and February using all but \$255.60 of the available exemption (\$6,529.20 - \$6,273.60 = \$255.60). The two days leave taken is valued at \$403.64, leaving a balance of \$147.64 that is subject to tax and tax withholding.

Approved: Stephen L. Bridges, Director, Finance Operations Date: 22 March 2005